

The background of the slide features a microscopic view of COVID-19 virus particles. The particles are depicted as spherical structures with a textured, spiky surface, rendered in shades of blue and cyan. They are scattered across the frame, with some appearing larger and more detailed than others. The overall aesthetic is scientific and clinical.

# COVID-19

## Impact on banks far reaching

But unprecedented relief measures  
provide some near-term stability

April 2020

RAM

# Key takeaways



## ASSET QUALITY WILL BE TESTED

Unlike in past crises, weaknesses will be broad-based. Relief measures, while necessary, will mask the true extent of loan delinquencies.



## STURDY LOSS ABSORPTION BUFFERS

In a hypothetical stress scenario, a doubling of impaired loans would substantially erode banks' earnings but loan loss buffers will still be healthy.



## LOAN GROWTH TO SKID TO 1% - 2%

On the back of an economic slowdown and weaker sentiments.



## SUFFICIENT LIQUIDITY

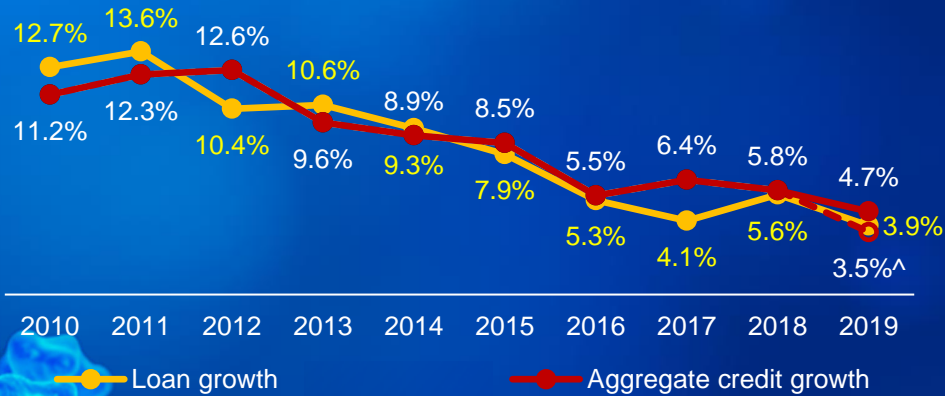
Boosted by recent SRR cut and compliance flexibility. Limited reliance on offshore wholesale funding is a positive.



## PROFITABILITY WILL BE HIT

NIM compression inevitable – OPR expected at 2.0% by end-2020. Alongside higher credit costs, this would further depress profitability.

# Loan growth to fall to multi-year low



^ Adjusted to exclude Urusharta Jamaah's extraordinary issuance

- Loan growth to be 1.0%-2.0% in 2020, on account of a slowdown in economic activity.
- Our current GDP forecast for 2020 stands at -2% given the rapid deterioration in global growth outlook. Any upside is contingent on the recovery of supply chains.

# Asset quality will be closely watched

## WIDE-RANGING IMPACT

With few sectors spared.

## HOUSEHOLDS

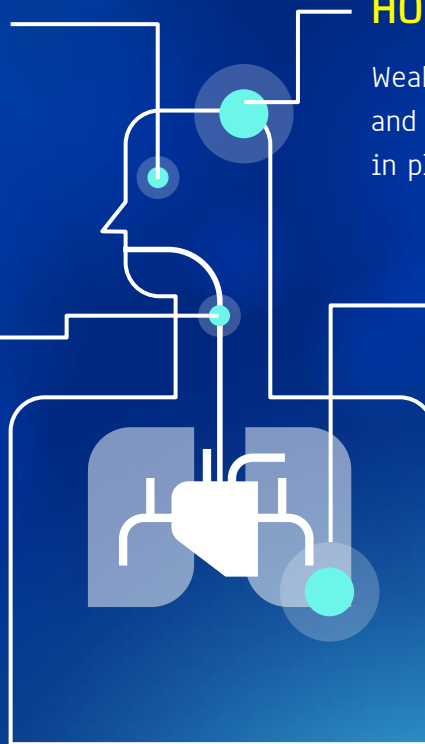
Weaknesses could extend beyond low-income and variable-income groups if the MCO stays in place for a longer duration.

## CHALLENGES FROM FOREIGN OPS

Banks with exposure in Singapore, Indonesia and Thailand face greater pressure.

## COLLAPSE OF OIL PRICES

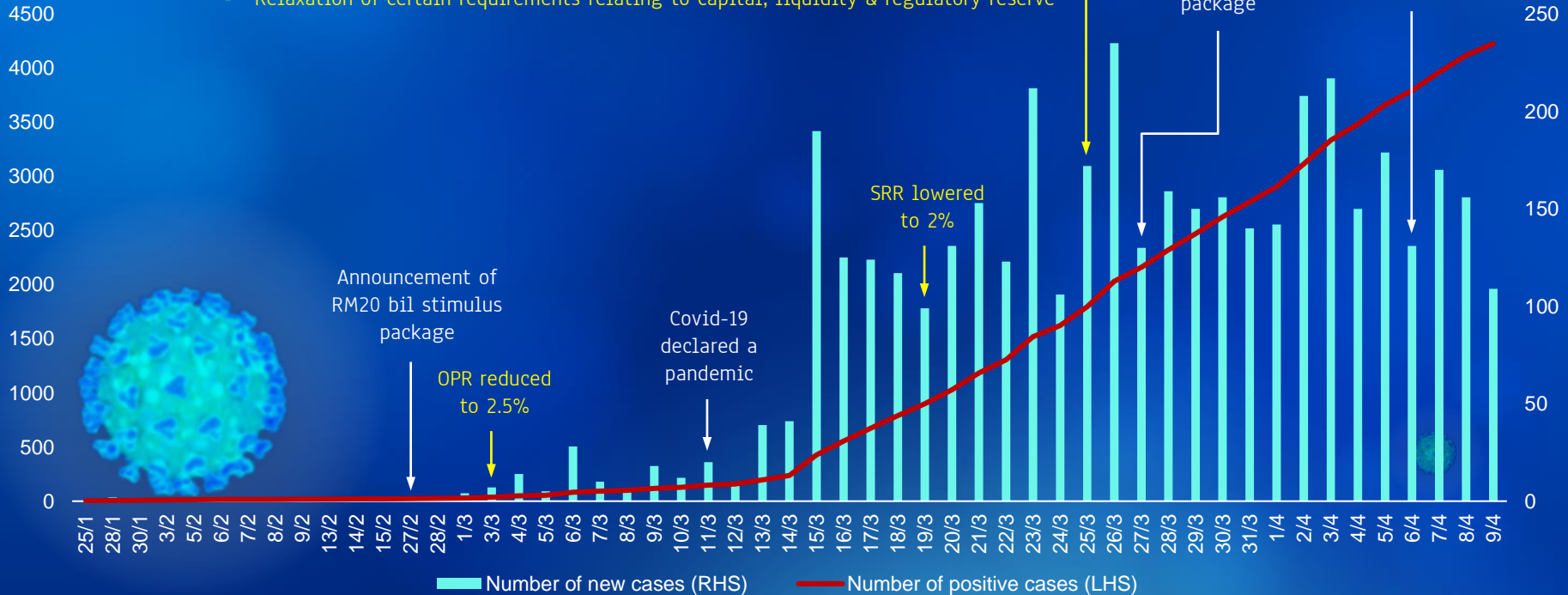
could derail the recovery charted by the O&G sector in the last two years, leading to a re-emergence of risks.



# BNM's unprecedented relief measures timely ...

BNM announced sweeping relief measures, including:

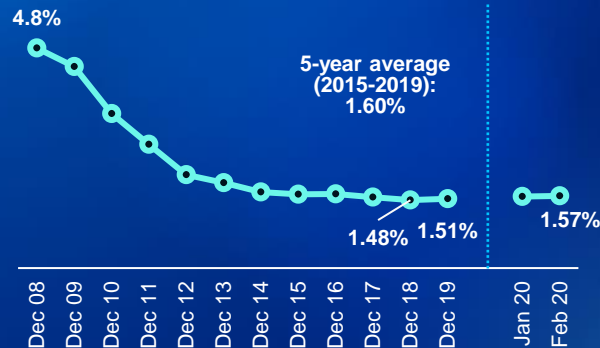
- Automatic six-month moratorium on repayments for individuals & SMEs
- Banks to facilitate corporate borrowers' requests to defer/restructure repayments
- Relaxation of certain requirements relating to capital, liquidity & regulatory reserve



# ... but could defer the crystallisation of some credit risks to 2021

Steady GIL ratio for 2020

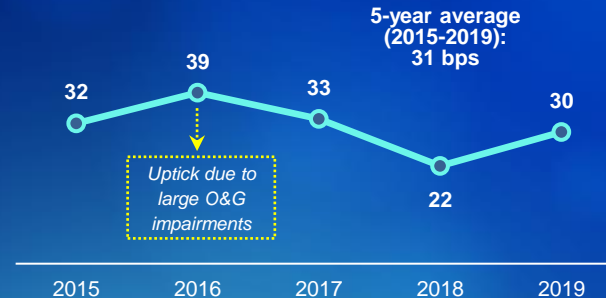
**~1.6%**



Uptick in credit costs

**40-50 bps**

We expect some banks to prudently set aside provisions this year for rainy days ahead.



# Liquidity is sufficient



The industry's excess liquidity stood at around **RM160 bil.**

In March 2020, BNM lowered the SRR to 2.0% and permitted some compliance flexibility, releasing another **RM30 bil** of liquidity into the financial system.



# Banks face storm from a position of strength

**18.4%**

Total capital ratio  
(end-Feb 2020)

**14.4%**

CET-1 capital ratio  
(end-Feb 2020)

**125.1%**

Average loan loss coverage ratio  
(including regulatory reserve<sup>^</sup>)  
(end-Feb 2020)

<sup>^</sup>Current requirement is set at 1% of unimpaired credit exposure. In the interim, banks have the flexibility to lower this to 0%.



# Conclusion

2020 will be a difficult year for the banking sector with the onslaught of Covid-19 seen on multiple fronts.



Even as the situation is still evolving, we believe that Malaysian banks face these uncertainties from a position of strength.



Regulatory response has been timely and supportive in our view.



Together, these factors will minimise disruption to banks' financial intermediation function of lending strength to the economy during this challenging season.

# Impact analysis on banking portfolio



Assessed **54** rated financial institutions and developmental financial institutions.



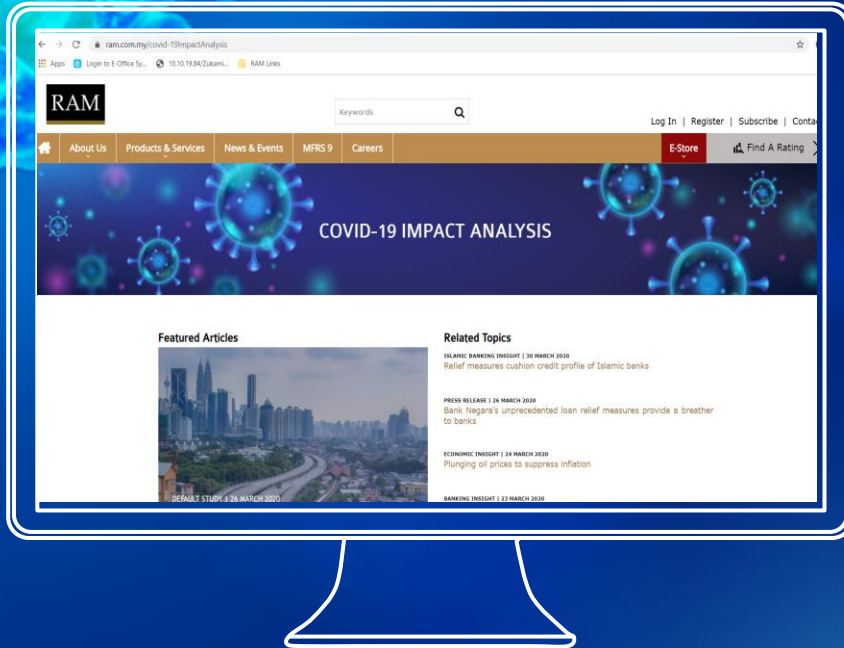
Most of our rated entities (**39**) are assessed to face a **moderate** impact from Covid-19, reflecting banks' inextricable linkage to the broader economy.



The credit strength of remaining entities should see minimal impact. Their ratings benefit from uplift from systemic/government support as well as solid parental backing.

As our rating assessment is forward-looking in nature, **a blip in credit metrics need not warrant a re-evaluation of the ratings of banks if these are restored within a reasonable timeframe** to levels commensurate with their ratings and risk profiles.

# For more information



For more banking insight, view RAM's **Banking Insight 2020 – Weathering the Storm** at [www.ram.com.my](http://www.ram.com.my)

Also available: RAM's **Islamic Banking Insight 2020 – Manoeuvring a Bend**



# Thanks!

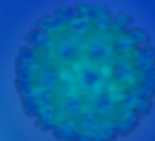



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The logo features the letters 'RAM' in a white, serif font, centered within a black rectangular box. This box is superimposed on a background of glowing, blue and green, organic-looking structures that resemble a cluster of cells or a microscopic view of a material.

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